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SUBJECT: Ambassador Raises Rice Demarche and AgTrade Issues

Ref: State 180202

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1. (SBU) Summary. In separate meetings, the Ambassador delivered a demarche on the Turkish rice import regime (reftel) to the Ministers of Foreign Trade and Agriculture. Both Ministers noted that the decision to impose quotas and seasonal bans was an effort to protect a politically sensitive sector of the Turkish economy. The Ambassador noted that their policy has led to almost 60 percent drop in U.S. exports from the previous year. The Ambassador stated that the issue would be raised at the WTO Committee on Import Licensing scheduled for the end of September in Geneva. End Summary.

State Minister for Foreign Trade

2. (SBU) On September 17, the Ambassador met with Kursad Tuzmen, the State Minister of Foreign Trade to deliver the rice demarche (reftel). The Minister responded that Turkey is a net importer of many agriculture products including rice and corn. He stated that Turkey only produces about 40 percent of its rice needs and will for the foreseeable future need to import rice. Tuzmen claimed that the GOT's rice policy is aimed at discouraging speculators and preventing shortages, and that imports are permitted at the bound rate. He added that the rice sector was politically sensitive in Turkey and that the quota was imposed to stabilize the market and help Turkish producers. Comment: Minister Tuzmen seemed to ignore or not comprehend the negative effect the Turkish import regime had had on trade or that Turkey's practices might in any way not be in compliance with WTO rules. U.S. exports have dropped by almost 60 percent from the previous year. The Turkish seasonal ban has continued for over a year and even with the changes, will last until January 2005. End Comment.

3. (SBU) The Ambassador pointed out the discrepancy in Turkish policy, pointing out that, while Minister Tuzmen may claim that Turkey needed to import, statistics showed that trade had been impacted. The Ambassador informed the Minister that the issue would be raised at the WTO Committee on Licensing scheduled for the end of September in Geneva. Minister Tuzmen responded that the Secretariat would work with the Turkish Agriculture and Rural Affairs Ministry on this.

4. (SBU) The Ambassador also raised the issue of Turkish regulations limiting import of distilled spirits, but noted that this issue appeared to be on its way to a mutually-satisfactory resolution.

Ministry of Agriculture and Rural Affairs

5. (SBU) On September 20, the Ambassador met with Sami Guclu, the Minister of Agriculture and Rural Affairs. The Ambassador reported on his meeting with Minister Tuzmen and raised the points regarding Turkey's rice import regime from reftel. The Ambassador noted that, despite what Turkish officials have reported, the impact of seasonal bans and the requirement that domestic purchases be made in order to import, U.S. exports to Turkey have declined nearly 60 percent from a year ago. He informed the Minister that the issue would be raised at the WTO Committee on Import Licensing in Geneva and that unless our differences were worked out, the United States would have to consider all its options including dispute settlement.

6. (SBU) Minister Guclu responded that relations with the United States were good and that bilateral confidence was

growing particularly on Turkey's trade in the region. He felt that trade issues should be discussed bilaterally and both sides should find a solution. Minister Guclu noted that while some groups in Turkey sympathize and support the importation of U.S. products, some are not as supportive.

17. (SBU) On the rice issue, Minister Guclu stated that there were 100,000 Turkish rice farmers and the government needed to protect their income and living standards. There is tremendous pressure on the government to maintain their income level. Guclu noted that Turkey imports over 50 percent of its demand and that the new quota system does not limit U.S. exports nor does it discriminate against U.S. exporters. Guclu stated that the reason for the drop in U.S. exports was not the ban on import licenses but rather high U.S. freight costs. Comment: At a meeting with the head of the Turkish Grain Board that same day, AgCounselor was informed that Turkey had maintained its seasonal ban despite rising U.S. prices and freight costs (averaging USD 75 - 90/ton and subject to a 32 percent tariff) because Turkey's domestic price for rice is even higher. According to the head of TMO, Turkey would need a 90 percent duty on imported rice in order to protect its market. End Comment.

18. (SBU) The Minister suggested that U.S. and Turkish technical staff should find a better solution (than the WTO) and that the Ministry would make the necessary amendments. He added that anything can be resolved bilaterally. Comment: Turkey has imposed the seasonal ban for the past 3 years and refused to respond to requests to lift the ban. End comment. In response, the Ambassador noted that it is always better to find a bilateral solution, particularly for politically sensitive issues. The Ambassador also suggested that it is incumbent on all of us to balance domestic policies with our international trade commitments.

Other Ag Issues

19. (SBU) The Ambassador took the opportunity to raise other agriculture related issues. He thanked the Minister and his staff for their assistance in resolving Cargill's investment dispute, noting that it would instill greater confidence in Turkey and hopefully encourage more foreign investment.

110. (SBU) The Ambassador also noted that, hopefully, changes in Turkish standards would allow the resumption of U.S. whiskey and bourbon exports to Turkey. He encouraged the Minister to accelerate the formation of the food codex committee, which will review all changes in Turkish food regulations. The Ambassador expressed the hope that the new Turkish regulations, which would amend Turkish whiskey standards, would be one of the first regulations submitted to the committee.

Minister Guclu's Issues

111. (SBU) Minister Guclu requested information on three topics. First, the Minister inquired about the status of an MOU between USDA and MinAg. This MOU had been signed in 1995 and expired in 2000. The Minister requested training assistance for Turkish agriculture officials.

Edelman